UNITED STATES DISTRICT COURT

DISTRICT OF MINNESOTA

ALBERT SMELKO, JR., Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. STRATASYS LTD., DAVID REIS and EREZ SIMHA, Defendants.	)))))))))))	Civ. No. CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS DEMAND FOR JURY TRIAL

Plaintiff Albert Smelko, Jr. ("Plaintiff"), by Plaintiff's undersigned attorneys, individually and on behalf of all other persons similarly situated, alleges the following based upon personal knowledge as to Plaintiff's own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff's attorneys, which included, among other things, a review of Defendants' public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Stratasys Ltd. ("Stratasys" or the "Company"), analysts' reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

BACKGROUND

1. This is a federal securities class action on behalf of all persons who purchased or otherwise acquired Stratasys common stock between May 9, 2014 and February 2, 2015 (the "Class Period"), against Stratasys and certain of its officers and/or directors (collectively, "Defendants") for violations of the Securities Exchange Act of 1934 ("1934 Act"). These claims are asserted against Stratasys and certain of its officers and/or directors who made materially false and misleading statements during the Class Period in press releases, analyst conference calls, and SEC filings.

2. Stratasys manufactures three-dimensional (or "3D") printers and describes itself as a leading global provider of additive manufacturing solutions. The Company's printers build three-dimensional models by depositing multiple layers of resin one on top of

another based on data from three-dimensional computer aided design files. The Company's products are used by designers, engineers, and manufacturers to visualize, verify, and communicate product designs.

3. The Company is the product of the 2012 merger of two additive manufacturing companies, Stratasys, Inc. and Objet Ltd. ("Objet"). Stratasys, Inc. was incorporated in Delaware in 1989, and Objet was incorporated in Israel in 1998. On December 1, 2012, the two companies completed the Stratasys-Objet merger, pursuant to which Stratasys, Inc. became an indirect, wholly-owned subsidiary of Objet, and Objet changed its name to Stratasys Ltd. As part of that transaction, the ordinary shares of Stratasys were listed on the NASDAQ under the trading symbol "SSYS," in place of the listing of the common stock of Stratasys, Inc., which had also traded under that symbol.

4. Stratasys has dual headquarters. One of its two principal places of business is located at 7665 Commerce Way, Eden Prairie, Minnesota. Stratasys' other principal place of business is located at 2 Holtzman Street, Science Park, P.O. Box 2496, Rehovot 76124, Israel.

5. On August 15, 2013, Stratasys acquired Cooperation Technology Corporation, or "MakerBot," which was the direct parent company of MakerBot Industries, LLC, a desktop 3D printing company. The Company acquired MakerBot for $493.7 million and, as a result of the acquisition, MakerBot's business is now operated by a subsidiary of Stratasys. In addition, the MakerBot merger consideration included two potential earn-out payments that would go to MakerBot shareholders. The first amounted to $10.8 million, which the Company paid in cash during April 2014. The second earn-out period allowed MakerBot

shareholders to qualify for up to 0.8 million shares of Stratasys stock depending on whether Stratasys hit certain financial metrics for the year ended December 31, 2014.

6. Stratasys' product portfolio consists of four series of additive manufacturing ("AM") systems and the consumables used in those systems.[1] These series are the MakerBot desktop series, the Idea Series, the Design Series, and the Production Series. Collectively, this portfolio offers a variety of performance options for Stratasys' customers, depending on their desired application, as well as on the nature and size of the designs, prototypes or end-products they seek to produce.

7. As of December 31, 2013, on a pro forma basis, including sales by MakerBot, Stratasys sold approximately 75,818 systems globally, including approximately 40,550 sold by MakerBot. The Company generates recurring revenues from the sale of resin and plastic consumables and the provision of related services.

8. At the start of the Class Period, the Company reiterated its projected revenue and net income for 2014, pointing to revenue guidance of $660 million to $680 million, non-GAAP earnings per share of $2.15 to $2.25, GAAP earnings per share of $0.20 to $0.38, and expected organic sales growth of at least 25%, excluding MakerBot sales that were expected to "grow at a higher rate."

9. Throughout the Class Period, Defendants repeatedly issued positive statements regarding MakerBot and its products. For example, on May 9, 2014, the Company stated that "MakerBot branded products and services contributed $20.6 million to first quarter revenue, a 79% increase over the revenue that MakerBot generated as an independent

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[1] AM is another term for three-dimensional printing.

company during the first quarter of 2013." The Company also highlighted that day that it had begun "shipping the new MakerBot Replicator 3D Printer, and announced the availability of the MakerBot Replicator Mini Compact 3D Printer and MakerBot Replicator Z18 3D Printer for preorder, with shipping expected before the end of the second quarter." As the Class Period went on, Stratasys significantly raised its 2014 financial guidance to $750 to $770 million.

10. The Company, however, was reporting revenue contributions by the Company's MakerBot branded products and services during the Class Period that were largely driven by new distribution channel and product introductions. In addition, absent initial sales to stock customers and new distribution channels with newly introduced products, the Company was experiencing little, if any, incremental demand for its existing MakerBot branded products and services during the Class Period. The Company was also experiencing product defects associated with newly introduced MakerBot branded products that were, unbeknownst to investors, inhibiting demand for, and Company's ability to ramp the distribution of, such products.

11. Defendants were highly motivated to conceal the substantial problems with the Company's business, outlook, and MakerBot products, and, in turn, artificially inflate the price of Stratasys stock. To that end, on April 2, 2014, the Company announced a merger agreement with privately held Solid Concepts Inc. ("Solid Concepts"). As part of the acquisition, which the Company completed on July 14, 2014, the Company agreed to pay up to $295 million, which included Stratasys common stock to be sold during the Class Period. On July 17, 2014, the Company filed a prospectus supplement with the SEC on Form 424B7

for the sale of 1,961,155 shares of Stratasys common stock at $103.37 per share, totaling $202,724,592.35.

12. Similarly, on April 2, 2014, the Company announced a merger agreement with privately held Harvest Technologies, Inc. ("Harvest Technologies"). The Harvest Technologies acquisition was completed on August 1, 2014, and included Stratasys common stock to be sold during the Class Period. On August 7, 2014, the Company filed a prospectus supplement with the SEC on Form 424B7 for the sale of 277,476 shares of Stratasys common stock at $98.47 per share, totaling $27,323,061.72.

13. After completing the two offerings which netted selling shareholders more than ***$230 million*** while the price of Stratasys common stock was artificially inflated, the Company stunned the market on February 2, 2015 by warning that its fourth quarter fiscal 2014 revenue would miss analysts' expectations, largely based on problems with its MakerBot unit. The February 2, 2015 announcement revealed that the Company was taking a $100 to $110 million impairment charge to the goodwill value of the recently acquired MakerBot, pointing to slower growth of MakerBot products and services revenue, including "challenges associated with the introduction and scaling of its new product platform [the 5th Generation Replicator 3D printers and 3D printing ecosystem] and the Company's rapidly evolving distribution model." MakerBot's revenue, which makes up 12% of the Company's total revenue, grew only 7% year-over-year in the fourth quarter, coming up well below the growth level seen in prior quarters.

14. Stratasys also announced that revenue for the full year 2014 would be between $748 million and $750 million, lower than the $764 million analysts had been modeling and

below prior guidance of $750 million to $770 million. Although it grew fourth quarter revenues by 38%, that growth also fell short of analyst expectations of 49% growth, meaning fourth quarter revenue would be approximately $214 million, below consensus estimates of $230.8 million. Adjusted earnings per share for 2014 fell short as well, with the Company reporting EPS of $1.97 to $2.03 versus prior guidance of $2.21 to $2.31 and consensus estimates of $2.25.

15. For 2015, the Company announced that it expected adjusted earnings per share of $2.07 to $2.24, which fell far short of analyst and market expectations of $2.90. The Company also forecast 2015 revenues of $940 million to $960 million, also short of market expectations of $1 billion. The reduced forecast implied slower organic growth.

16. In response to the Company's unexpected earnings miss, weak forecast, impairment charge, and newly revealed problems with MakerBot, the price of Stratasys common stock dropped suddenly. After closing at $80.08 per share on February 2, 2015, the stock opened trading at $57.00 per share on February 3, 2015, ultimately falling $22.72 per share – or 28% – to close at $57.36 per share as numerous analysts, including JP Morgan, FBR Capital Markets, Cowen & Co., Piper Jaffray, and Brean Capital downgraded their ratings of Stratasys stock.

JURISDICTION AND VENUE

17. Jurisdiction is conferred by §27 of the 1934 Act, 15 U.S.C. §78aa. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§78j(b) and 78t(a), and SEC Rule 10b-5, 17 C.F.R. §240.10b-5.

18. Venue is proper in this District pursuant to §27 of the 1934 Act. The violations of law complained of herein occurred in part in this District, including the dissemination of materially false and misleading statements complained of herein into this District. Stratasys' principal executive offices are located at 7665 Commerce Way, Eden Prairie, Minnesota 55344.

19. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets. Stratasys trades in an efficient market on the NASDAQ.

PARTIES

20. Plaintiff Albert Smelko, Jr. purchased Stratasys common stock as described in the attached certification and suffered damages as a result of the securities fraud alleged herein.

21. Defendant Stratasys is considered a foreign issuer and has dual headquarters, with one of its two principal places of business located at 7665 Commerce Way, Eden Prairie, Minnesota.

22. Defendant David Reis ("Reis") is, and at all relevant times was, the Chief Executive Officer of Stratasys.

23. Defendant Erez Simha ("Simha") is, and at all relevant times was, the Chief Financial Officer and Chief Operating Officer of Stratasys.

24. Defendants Reis and Simha (collectively, the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control

the contents of, among other things, Stratasys' annual reports, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

25. Defendants are liable for: (a) making false statements; or (b) failing to disclose adverse facts known to them about Stratasys. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Stratasys common stock was a success, as it: (a) deceived the investing public regarding Stratasys' prospects and business; (b) artificially inflated the price of Stratasys common stock; and (c) caused Plaintiff and other members of the Class, as defined below, to purchase Stratasys common stock at inflated prices and suffer economic loss when the revelations set forth herein reached the market.

CLASS ACTION ALLEGATIONS

26. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired

Stratasys common stock during the Class Period (the "Class"). Excluded from the Class are Defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

27. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Stratasys trades on the NASDAQ and has more than 50 million shares outstanding, owned by hundreds, if not thousands, of persons.

28. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether Defendants violated the 1934 Act;

(b) whether Defendants omitted and/or misrepresented material facts;

(c) whether Defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether Defendants knew or recklessly disregarded that their statements were false and misleading;

(e) whether the price of Stratasys common stock was artificially inflated; and

(f) the extent of damages sustained by Class members and the appropriate measure of damages.

29. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class sustained damages from Defendants' wrongful conduct.

30. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

31. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS AND OMISSIONS ISSUED DURING THE CLASS PERIOD[2]

32. On May 9, 2014, the Company announced its first quarter financial results and reiterated the Company's projected revenue and net income for 2014. Among the Company's "Business Highlights," the press release stated that it ***"[b]egan shipping the new MakerBot Replicator 3D Printer, and announced the availability of the MakerBot Replicator Mini Compact 3D Printer and MakerBot Replicator Z18 3D Printer for preorder, with shipping expected before the end of the second quarter***."

33. Specifically, the Company's press release stated in relevant part:

> Stratasys reiterated the following information regarding the company's projected revenue and net income for the fiscal year ending December 31, 2014:
>
> - ***Revenue guidance of $660 million to $680 million***.
> - ***Non-GAAP net income of $113 million to $119 million, or $2.15 to $2.25 per diluted share***.

[2] Only the statements bolded and italicized are alleged to be false and misleading or to have omitted material information.

- ***GAAP net income of $10.5 million to $19.9 million, or a $0.20 to $0.38 per diluted share***.

- ***The company expects organic sales, excluding MakerBot sales, to grow at least 25% over 2013, with additional growth coming from MakerBot, which is expected to grow at a higher rate***.

34. Also on May 9, 2014, the Company filed a Form 6-K with the SEC, reporting its quarterly consolidated financial statements for the three months ended March 31, 2014. The Form 6-K reiterated the financial information in the press release. Among other things, the Company reported:

> Revenues derived from products (including AM systems, consumable materials and other products) increased by $47.4 million for the three months ended March 31, 2014, or 58.0%, as compared to the three months ended March 31, 2013.
>
> The number of systems shipped increased to 8,802 units as compared to 1,168 units shipped in the three months ended March 31, 2013. ***The increase in both revenues and number of units shipped primarily reflects sales growth across all product lines as well as the inclusion of MakerBot revenues and unit sales which were not reflected in the three months ended March 31, 2013***. This growth has been driven in part by the continued adoption of our Connex systems for complex prototyping using a wide range of materials with diverse mechanical and physical properties.
>
> Consumables revenues for the three months ended March 31, 2014 increased by 36.0% as compared to consumables revenues for the three months ended March 31, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems. The strong Production series and high-end Design series system sales in prior periods contributed to strong consumables sales growth given their relatively higher consumable utilization rates. We believe that our growing installed base, and in particular the Production series and high-end Design series systems installed base, are positive indicators of consumables revenues growth in future periods.

35. Describing the MakerBot acquisition and two earn-out payments, the Form 6-K also stated:

The initial MakerBot merger consideration was in the form of issuance of our ordinary shares. MakerBot shareholders could also qualify for two earn-out payments, the first for the six month period ended December 31, 2013, which amounted to $10.8 million and which was paid in cash during April 2014, and a second earn-out period for which MakerBot shareholders could qualify for up to 0.8 million shares depending on the level of achievement of financial metrics for the year ended December 31, 2014. The value of any shares earned will be equal to the price of Stratasys ordinary shares on the date the amount of shares is determined. For example, had the maximum of 0.8 million shares been earned for the second earn-out period and based on the Company share price, the value would have been $85.3 million in aggregate. The earn-out payments would be made in issuance of our shares or in cash, or a combination thereof, at our discretion. Certain MakerBot employees participate in a performance bonus plan in connection with the MakerBot transaction. Participating employees are entitled, contingent on certain continuing employment conditions, to bonus payments that in the aggregate will equal dollar-for-dollar, the actual amounts determined in the earn-out calculation. The $10.8 million bonus earned for the first earn-out period and any bonus earned in the second earn-out period will be paid upon vesting, with the issuance of our shares or in cash, or a combination thereof, at our discretion.

36. Also on May 9, 2014, the Company hosted a conference call to discuss its financial results and 2014 financial outlook. During the call Simha stated as follows:

We are very pleased with our first quarter results.

1. ***We generated impressive organic sales growth combined with a strong revenue contribution from MakerBot***;

2. We reported an impressive expansion in our gross margin, driven by sales of our higher margin products and services;

3. We should also highlight that our core business excluding MakerBot, experienced an expansion in operating and net margins over the last year, which was offset by significant investment in MakerBot market development bodies to drive future growth;

4. And finally, we have a strong balance sheet and continue to position the company for future growth for strategic investment as well as additional acquisitions.

37. On July 15, 2014, the Company acquired, pursuant to a merger agreement dated April 2, 2014, privately held Solid Concepts. In a prospectus supplement filed with the SEC on July 17, 2014, the Company described the consideration paid for the Solid Concepts acquisition:

> Pursuant to the Solid Concepts acquisition, we may pay total consideration of up to $295 million. That amount includes an initial closing payment of approximately $133 million, approximately $95 million of which is subject to a six-month lock-up. A portion of that $133 million closing payment amount was settled via our issuance of ordinary shares, having a market value of approximately $109 million, at closing, of which approximately $91 million is subject to a six-month lock-up. The remaining approximately $24 million of our closing payment is to be settled via our payment of cash, of which approximately $20 million was paid at closing and approximately $4 million (the locked-up portion of the cash closing consideration) will be paid six months after closing. The total consideration payable pursuant to the acquisition also includes deferred payments of $60 million and up to $63 million in retention-related payments. Subject to certain requirements for cash payments, we retain discretion to settle any of the deferred or retention payments via our issuance of additional ordinary shares, cash or any combination of the two.

38. The July 17, 2014 prospectus supplement stated, in relevant part:

> The registration of the resale of the shares for the secondary offering by the selling shareholders hereunder is being carried out pursuant to our obligations under the Solid Concepts merger agreement. Under that agreement, we undertook to register for resale all 978,601 ordinary shares that we initially issued to the stockholders, and to one option holder, of Solid Concepts at the closing of the Solid Concepts acquisition, consisting of 155,336 ordinary shares that may be resold immediately (subject to compliance with applicable securities laws) and 823,265 ordinary shares that are subject to a six-month contractual lock-up. Those ordinary shares (which constitute the shares issued after withholding for taxes), together with certain cash consideration and deferred consideration, were issued in exchange for 100% of the outstanding capital stock of Solid Concepts and the cancellation of options to purchase additional shares of Solid Concepts stock. Under the Solid Concepts merger agreement, we also undertook to register for resale an additional $120 million in value of our ordinary shares (constituted, maximally, by 982,554 additional ordinary shares that are covered by this prospectus supplement) that we may issue in respect of periods through the

> third anniversary of the closing (that is, through mid-July 2017) to Solid Concepts' stockholders and certain Solid Concepts employees as of the effective time of the Solid Concepts acquisition for deferred payments and retention-related payments. We refer to all shares covered by the foregoing registration obligations collectively as the registrable securities.

39. On August 7, 2014, the Company issued a press release announcing its second quarter financial results and increasing the Company's 2014 financial guidance. Among other things, the press release stated:

> Total revenue for the second quarter of 2014 was $178.5 million, an increase of 67% compared to the same period last year; or an increase of 35% when excluding the impact of acquisitions. Non-GAAP net income for the second quarter increased by 51% over the same period last year to $28.0 million, or $0.55 per diluted share. GAAP net loss for the period was $173,000, or ($0.00) per basic share.
>
> ***MakerBot branded products and services contributed $33.6 million to second quarter revenue, driven by channel expansion initiatives and the successful introductions of new products within the rapidly expanding segment for desktop 3D printers***.
>
> ***The company raised its financial guidance for fiscal 2014 to account for an improved outlook for the remainder of the year***, as well as to account for the recent acquisitions of Solid Concepts and Harvest Technologies. ***The company raised its organic revenue growth forecast for 2014 to at least 30%, versus a previous forecast of at least 25%***.
>
> ***Revenue guidance for 2014 increased to $750-$770 million; versus previous guidance of $660-$680 million. Non-GAAP net income guidance increased to $2.25-$2.35 per diluted share, versus previous guidance of $2.15-$2.25 per diluted share***.
>
> The company also updated its long-term operating model, which included raising its long-term annual organic revenue growth forecast to at least 25%, versus previous guidance of at least 20%.
>
> * * *
>
> ***Stratasys updated the following information regarding the company's projected revenue and net income for the fiscal year ending December 31, 2014***:

- ***Revenue guidance was increased to $750-$770 million; versus previous guidance of $660-$680 million***.

- ***Non-GAAP net income guidance was increased to $117-$122 million, or $2.25-$2.35 per diluted share; versus previous guidance of $113-$119 million, or $2.15-$2.25 per diluted share***.

- The acquisitions of Solid Concepts and Harvest Technologies are expected to be modestly accretive to Stratasys' non-GAAP earnings per share in 2014.

- ***The company expects organic revenue growth, excluding acquisitions, of at least 30% in 2014 over 2013; versus the previous guidance of at least 25% growth***.

40. The August 7, 2014 press release included the following statements from defendant Reis:

> "We continue to observe strong positive sales momentum for our higher-performance systems and materials, which is reflected in the impressive 35% organic revenue growth we generated during the second quarter . . . . ***Equally impressive were the sales of MakerBot products and services, which contributed $33.6 million of revenue during the period, driven by our expanding distribution network and the successful launch of three MakerBot branded 3D printers in the first half of the year***. We are very pleased with our second quarter results, which represent quarterly records in revenue, non-GAAP net income and non-GAAP earnings per share."
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> * * *
>
> "***We expect our positive momentum to continue as we begin the second half of 2014 . . . . Reflecting our favorable outlook, we are increasing our projection for organic revenue growth in 2014 to at least 30%, and we are raising our financial guidance accordingly***. In addition, we are adjusting our outlook to account for the recent acquisitions of Solid Concepts and Harvest Technologies, acquisitions that we now believe will be modestly accretive to non-GAAP earnings per share in 2014. Longer term, we believe these acquisitions will enable us to better serve our customers, ultimately providing synergies for our combined organization. We are excited about our many opportunities, and believe we are well positioned within our rapidly growing industry."

41. On August 7, 2014, the Company filed a Form 6-K with the SEC, reporting its quarterly consolidated financial statements for the three months ended June 30, 2014. The Form 6-K reiterated the financial information in the press release. Among other things, the Company reported:

> Revenues derived from products (including AM systems, consumable materials and other products) increased by $63.9 million for the three months ended June 30, 2014, or 70.8%, as compared to the three months ended June 30, 2013.
>
> The number of systems shipped increased to 14,909 units as compared to 1,261 units shipped in the three months ended June 30, 2013. ***The increase in both revenues and number of units shipped primarily reflects sales growth across all product lines as well as the inclusion of MakerBot revenues and unit sales which were not reflected in the three months ended June 30, 2013***. This growth has been driven in part by the continued adoption of our Production series and high-end Design series systems for complex DDM and prototyping applications using a wide range of materials with diverse mechanical and physical properties.
>
> Consumables revenues for the three months ended June 30, 2014 increased by 35.1% as compared to the three months ended June 30, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems. The strong Production series and high-end Design series system sales in prior periods contributed to strong consumables sales growth given their relatively higher consumable utilization rates. We believe that our growing installed base, and in particular the Production series and high-end Design series systems installed base, are positive indicators of consumables revenues growth in future periods.

42. Also on August 7, 2014, Stratasys hosted a conference call to discuss the Company's second quarter 2014 financial results and discussed the Company's 2014 outlook. During the call, defendant Reis stated in relevant part:

> We are very pleased with our second quarter results, which represent quarterly records for revenue, non-GAAP net income, and non-GAAP earnings per share.
>
> We continued to observe strong positive sales momentum for our higher-performance systems and materials, which is reflected in the

impressive 35% organic revenue growth we generated during the period compared to last year.

> ***Equally impressive were the sales of MakerBot products and services, which contributed $33.6 million to revenue during the second quarter, a 100% increase over the revenue MakerBot generated as an independent company during the same period last year***.
>
> ***As we begin the second half of 2014, we expect our positive momentum to continue. Accordingly, we have raised our financial guidance and long-term revenue growth target***.
>
> ***In addition, we continue to position Stratasys for the long-term growth, through improvements in our organizational structure, as well as additional investments in channel and product development***.

43. During the August 7, 2014 call, defendant Reis spoke in detail about the positive performance of MakerBot, stating:

> ***We were very pleased with the performance of MakerBot during the second quarter, which contributed $33.3 million in revenue during the period, a very impressive achievement***.
>
> ***All of the new MakerBot fifth-generation products are now shipping, and we are observing strong demand across the entire product line***.

44. After reporting second quarter profit that handily beat analyst estimates and raising its 2014 forecast, such that even the low-end of the new 2014 outlook exceeded the average of analysts' estimates, shares of Company stock climbed the most in more than two years.

45. On August 7, 2014, the Company also filed a prospectus supplement on Form 424B7 for the sale of 277,476 shares at $98.47 per share, totaling $27,323,061.72. The prospectus supplement related to the Company's acquisition of Harvest Technologies and stated, in part:

> The registration of the resale of the shares for the secondary offering by the selling shareholders hereunder is being carried out pursuant to our

> obligations under the Harvest Technologies stock purchase agreement. Under that agreement, we undertook to register the resale of all 175,456 ordinary shares that we initially issued to the selling stockholders of Harvest Technologies at the closing of the Harvest Technologies acquisition. Those ordinary shares were issued in exchange for 100% of the outstanding capital stock of Harvest Technologies. Under the Harvest Technologies stock purchase agreement, assuming that the relevant employment conditions are met, we will also be required to make retention payments to employees (including a former stockholder) of Harvest Technologies upon the 12, 24, 36 and 42 month anniversaries of the closing, which may be settled in cash or ordinary shares (at our discretion). If we settle those retention payment obligations by issuing ordinary shares, we have undertaken to register the resale of those shares. This prospectus supplement registers the resale of the maximum number of ordinary shares issuable pursuant to those retention payment obligations (consisting of 102,020 ordinary shares, in the aggregate, which assumes that all such obligations will be settled in ordinary shares, not cash). We refer to all shares covered by the foregoing registration obligations collectively as the registrable securities.

46. On November 5, 2014, the Company issued a press release announcing its third quarter financial results and revised its 2014 financial guidance. The press release stated, in relevant part:

> The company adjusted its financial guidance for fiscal 2014 to account for the recent acquisition of GrabCAD, with the expectation that ongoing development costs, as previously disclosed, are expected to negatively impact the fourth quarter by $0.03 to $0.05 per share. Non-GAAP net income guidance was adjusted to $2.21-$2.31 per diluted share; versus previous guidance of $2.25-$2.35 per diluted share.
>
> **Q3-2014 Financial Results Summary**:
>
> - Revenue for the third quarter of 2014 was $203.6 million, representing a 62% increase, and 35% on an organic basis, over non-GAAP revenue of $126.1 million reported for the same period last year.
> - GAAP net loss for the third quarter was $31.3 million, or ($0.62) per basic share, compared to a net loss of $6.6 million, or ($0.16) per basic share, for the same period last year.
> - Non-GAAP net income was $30.1 million for the third quarter, or $0.58 per diluted share, compared to non-GAAP net income of $20.0 million, or $0.45 per diluted share, for the same period last year.

- Third quarter per share calculations relative to last year were impacted by the issuance of approximately 5.2 million new ordinary shares in the September 2013 public offering, which raised a net amount of approximately $463 million; the approximate 3.9 million new ordinary shares issued in consideration for the acquisition of MakerBot in August of 2013; and the approximately 1.2 million shares issued in consideration for the acquisitions of Solid Concepts and Harvest Technologies in July and August of 2014, respectively.

- Operating expenses expanded materially in the third quarter over last year driven by the addition of expenses from Solid Concepts, Harvest Technologies and MakerBot, as well as from significant incremental investments to support new product initiatives and the company's accelerating growth.

- The company invested a net amount of $19.2 million in R&D projects (non-GAAP basis) during the third quarter, representing 9.4% of revenue; R&D expense was $23.4 million on a GAAP basis.

- The company utilized $10.7 million in cash for operations during the third quarter, driven primarily by one-time employee bonuses and retention payments related to recent acquisitions; and currently holds $459 million in cash and cash equivalents, and short-term bank deposits, amounting to approximately $9 per share. The cash balance includes a $50 million drawdown on the company's revolving debt facility.

- Non-GAAP EBITDA for the third quarter amounted to $40.0 million; and EBITDA based on GAAP net income was ($22.2) million.

- The company sold 10,965 3D printing and additive manufacturing systems during the quarter, and on a combined pro forma basis, a cumulative 110,494 systems worldwide through September 30, 2014.

* * *

Stratasys provided the following information regarding the company's projected revenue and net income for the fiscal year ending December 31, 2014:

- Revenue guidance remains at $750-$770 million.

- Reflecting the recent acquisition of GrabCAD, non-GAAP net income guidance was adjusted to $115-$120 million, or $2.21-$2.31 per diluted share; versus previous guidance of \$117-\$122 million, or \$2.25-\$2.35 per diluted share.

- GAAP guidance was updated to a net loss of (\$31.6)-(\$24.4) million, or (\$0.63)-(\$0.49) per basic share.

47. The November 5, 2014 press release also provided the following additional information regarding the Company's performance and strategic plans for 2014:

- Operating expenses will expand materially in 2014 compared to 2013, driven by significant investments to support MakerBot product development and sales expansion; other investments in sales and marketing to drive future market adoption; and increased R&D investments to fund technology innovation and new product development.

- Operating expenses for the remainder of 2014 will also include significant incremental investments to support the integration and alignment of the recent acquisitions of Solid Concepts and Harvest Technologies, as well as ongoing incremental expenses from the addition of GrabCAD.

- Capital expenditures are projected at \$50 million to \$60 million for 2014, and \$160 million to \$200 million for 2015, which includes significant investments to support future growth.

48. The November 5, 2014 press release included the following statements from defendant Reis:

> "***Our organic revenue growth in the third quarter was an impressive 35%, as demand for our industry-leading products and services remained very strong . . . . We believe this trend validates our leadership position, supports our strategic initiatives, and reflects favorably on the contributions made by our recent acquisitions. As MakerBot sales continue to impress, sales of our higher-margin products remained a key growth driver during the third quarter, which had a positive impact on margins during the period***. Overall, we are very pleased with our third quarter results, as we continued to recognize strong demand across a wide range of products and applications."
>
> * * *
>
> "We are excited about the potential of our recent acquisitions, and have initiated the process of integrating Solid Concepts and Harvest Technologies

together with RedEye into a unified parts services offering . . . . In addition, we believe the recent acquisition of GrabCAD will ultimately position our company to provide improved design collaboration tools, and greatly enhance customer accessibility to our 3D printing products and services. We believe these transactions demonstrate our commitment to invest strategically and position the company for long-term growth."

* * *

"***We continue to observe strong market demand, and we are excited about our several new product launches. And finally, we have reiterated our growth forecasts and look forward to a strong finish to 2014*** . . . ."

49. On November 5, 2014, the Company filed a Form 6-K with the SEC, reporting its quarterly consolidated financial statements for the three months ended September 30, 2014. The Form 6-K reiterated the financial information in the press release. Among other things, the Company reported:

> Revenues derived from products (including AM systems, consumable materials and other products) increased by $52.3 million for the three months ended September 30, 2014, or 48.5%, as compared to the three months ended September 30, 2013.
>
> The increase in products sales was driven by an organic growth of $37.5 million for the three months ended September 30, 2014, or 34.6% as compared to the three months ended September 30, 2013, as well as the inclusion of a full quarter of MakerBot revenues.
>
> The number of systems shipped increased to 10,965 units as compared to 5,925 units shipped in the three months ended September 30, 2013. ***Unit sales for the period increased at a higher rate than revenues due to the increased percentage of MakerBot units shipped as those units generally carry a lower average price per unit***. The growth in revenue has been driven in part by the continued adoption of our Production series and high-end Design series systems for complex DDM and prototyping applications using a wide range of materials with diverse mechanical and physical properties.
>
> Consumables revenues for the three months ended September 30, 2014 increased by 32.3% as compared to the three months ended September 30, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems. In particular, the strong sales of our Production series and high-end Design series systems in prior periods

> contributed to strong consumables sales growth given their relatively higher consumable utilization rates. We believe that our growing installed base, particularly that of the Production series and high-end Design series systems, are positive indicators of consumables revenues growth in future periods.

50. On November 5, 2015, Stratasys also hosted a conference call to discuss the Company's third quarter 2014 financial results and its 2014 outlook. During the call, defendant Reis stated, in relevant part:

> We are very pleased with our third quarter results, which included strong topline revenue growth, including an impressive organic revenue growth of 35%.
>
> ***We continued to observe positive sales momentum from a broad range of products and applications, including a significant expansion in manufacturing application, as well as another impressive contribution from MakerBot***.
>
> In addition, the strong demand we continue to observe for our high-performance systems and materials is contributing to a favorable product mix, which is having a positive impact on our margins.
>
> We believe our third quarter performance provides additional validation for the rationale behind our strategic initiatives and acquisitions.
>
> During the third quarter, we closed on the acquisitions of Solid Concepts, Harvest Technologies, GrabCAD and HAFNER'S BURO.
>
> We believe these acquisitions will expand our ability to address wider spectrum of market verticals, applications, and technology solutions.
>
> We are focused on serving our growing customer base and executing our integration plans.
>
> In addition, we are on an aggressive path to position the company for long-term growth, through incremental strategic investments in our channel and corporate infrastructure, as well as through new product development and additional acquisitions.

51. After the market closed on February 2, 2015, Stratasys issued a press release providing an update on its anticipated financial results for 2014, and providing an outlook for 2015. Among other things, the press release revealed that the Company was taking a

significant impairment charge, that earnings per share would fall significantly short of the guidance repeatedly discussed by Defendants during the Class Period, and that MakerBot sales had significantly slowed. The release provided in part:

> The Company expects to report fiscal year 2014 revenue in the range of $748 to $750 million, and non-GAAP net income in the range of $102 to $105 million, or $1.97 to $2.03 per diluted share. The Company expects to report a GAAP net loss for fiscal year 2014 in the range of $129 to $116 million, or ($2.58) to ($2.32) per share.
>
> During December 2014, Stratasys updated the goodwill impairment analysis of its MakerBot reporting unit. As a result, *the Company expects to recognize a non-cash, non-tax-deductible goodwill impairment charge of approximately $100 to $110 million in the fourth quarter*. The Company does not expect this accounting write down to affect its ongoing business or future financial performance. These are preliminary and unaudited results based on current expectations and are subject to quarter-end closing adjustments; accordingly, actual results may differ.
>
> Stratasys projects preliminary fourth quarter revenue growth of approximately 38% over the same period last year, including organic revenue growth of 25%. *However, the fourth quarter was impacted by slower growth of MakerBot product and services revenue during the period. MakerBot revenue is estimated to have grown by approximately 7% in the fourth quarter over the prior year, and is estimated to represent approximately 12% of preliminary total Stratasys revenue for the fourth quarter*.
>
> *Throughout 2014, MakerBot invested significantly in the introduction of its 5th Generation Replicator 3D printers and 3D printing ecosystem, and in the development of a multi-tier distribution strategy enabling broader distribution. These continuing investments are intended to provide MakerBot with the ability to further scale and build superior product platforms positioned for long-term growth, as the adoption of 3D printing expands. However, during the fourth quarter, MakerBot was affected by challenges associated with the introduction and scaling of its new product platform and the Company's rapidly evolving distribution model*.
>
> *During 2014, and specifically in the fourth quarter, MakerBot made significant hardware and software improvements to its product line*. Furthermore, during the second half of 2014, the Company engaged national partners in the United States, including Staples, Home Depot, Sam's Club and Dell – reaching new audiences through increased exposure for this new product category. Given the nature and scope of these new partnerships

> compared with MakerBot's traditional distribution model, less predictable sales patterns and reorder rates have been introduced into the business model.

52. Addressing the Company's 2015 guidance, the press release stated, in relevant part:

> In 2015, the Company estimates total revenue in the range of $940 to $960 million, with non-GAAP net income in the range of $109 to $118 million, or $2.07 to $2.24 per diluted share. Projected Non-GAAP net income is expected to be derived disproportionately from the second half of fiscal 2015, driven by the projected timing of revenue and operating expenses. The company projects a GAAP net loss for fiscal 2015 in the range of $23 to $10 million, or ($0.45) to ($0.20) per share.
>
> Stratasys believes that Additive Manufacturing ("AM") is poised to enter a new phase of increased adoption by manufacturers in a broad range of industries, including global manufacturing enterprises, by disrupting traditional design and manufacturing processes. Following extensive review of the evolving marketplace and opportunity, the management and the Board of the Company have decided to implement an investment plan with the goal of enabling the Company to offer a broader range of products and solutions with increased global and industry-specific coverage, especially within areas related to manufacturing, and create stronger customer relationships. The investment plan is designed to implement broad product development and infrastructure which would support annual revenues of $3 billion in 2020.
>
> As a result of its new investment plan, Stratasys expects incremental annual operating expenditures of 2% of anticipated revenues for coming two to three years, with total operating expenses in 2015 to be in the range of 46% to 47% of anticipated revenues. Additionally, the Company expects to incur capital expenditures in the range of $160 to $200 million in 2015. The Company also expects an effective tax rate of 5% to 10%.

53. On this news, the price of Stratasys stock collapsed. After closing at $80.08 per share on February 2, 2015, it suddenly dropped $22.72 per share on February 3, 2015, or 28%, on abnormal volume of more than 20 million shares.

54. The true facts, which were known by Defendants but concealed from the investing public during the Class Period, were as follows:

(a) the reported revenue contributions by the Company's MakerBot branded products and services during the Class Period were largely driven by new distribution channel and product introductions;

(b) absent initial sales to stock customers and new distribution channels with newly introduced products, the Company was experiencing little, if any, incremental demand for its existing MakerBot branded products and services during the Class Period;

(c) known, but undisclosed, product defects associated with newly introduced MakerBot branded products were inhibiting the demand for and Company's ability to ramp the distribution of such products;

(d) based upon (a) - (c) above, applicable accounting principles required that Stratasys test whether the goodwill associated with its MakerBot acquisition was impaired;

(e) the technical problems in the Company's MakerBot product line would negatively impact the Company's 2014 and 2015 financial performance and outlook; and

(f) as a result of the foregoing, Defendants' statements regarding the Company's financial performance and expected earnings were false and misleading and lacked a reasonable basis when made.

ADDITIONAL SCIENTER ALLEGATIONS

55. As alleged herein, Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or

acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding Stratasys, their control over and/or receipt and/or modification of allegedly materially misleading misstatements, and/or their associations with the Company, which made them privy to confidential proprietary information concerning Stratasys, participated in the fraudulent scheme alleged herein. In addition to the foregoing, Defendants were highly motivated and acted with scienter in that they kept from disclosure the negative facts and circumstances described herein in order to artificially inflate the price of Stratasys common stock and maximize the value of stock sales covered by the prospectuses dated July 17, 2014 and August 7, 2014. Indeed, the two offerings, which were completed while the price of Stratasys stock was artificially inflated, resulted in proceeds of more than $230 million.

LOSS CAUSATION/ECONOMIC LOSS

56. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Stratasys common stock and operated as a fraud or deceit on Class Period purchasers of Stratasys common stock by failing to disclose and misrepresenting the adverse facts detailed herein. When Defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market through a partial disclosure, the price of Stratasys common stock fell precipitously as the prior artificial inflation came out. As a result of their purchases of Stratasys common stock during the Class Period, Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws when the

truth about Stratasys was revealed after the market closed on February 2, 2015, through a disclosure that removed the artificial inflation from the price of Stratasys common stock.

57. By failing to disclose to investors the adverse facts detailed herein, Defendants presented a misleading picture of Stratasys' business and prospects. Defendants' false and misleading statements had the intended effect and caused Stratasys common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $129.28 per share on September 18, 2014.

58. As a direct result of the disclosure identified herein, the price of Stratasys common stock fell precipitously. This removed the artificial inflation from the price of Stratasys common stock, causing real economic loss to investors who had purchased Stratasys common stock at artificially inflated prices during the Class Period.

59. The decline was a direct result of the nature and extent of Defendants' fraud being revealed to investors and the market. The timing and magnitude of the price decline in Stratasys common stock negate any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to Defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by Plaintiff and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the price of Stratasys common stock and the subsequent significant decline in the value of Stratasys common stock when Defendants' prior misrepresentations and other fraudulent conduct were revealed.

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET DOCTRINE

60. At all relevant times, the market for Stratasys common stock was an efficient market for the following reasons, among others:

(a) Stratasys common stock met the requirements for listing and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, Stratasys filed periodic public reports with the SEC;

(c) Stratasys regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Stratasys was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

61. As a result of the foregoing, the market for Stratasys common stock promptly digested current information regarding Stratasys from all publicly available sources and reflected such information in the price of the stock. Under these circumstances, all purchasers of Stratasys common stock during the Class Period suffered similar injury through their purchase of Stratasys common stock at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

62. The "Safe Harbor" warnings accompanying Stratasys' reportedly forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. To the extent that projected revenues and earnings were included in the Company's financial reports prepared in accordance with GAAP, including those filed with the SEC on Form 6-K, they are excluded from the protection of the statutory Safe Harbor. *See* 15 U.S.C. §78u-5(b)(2)(A).

63. Defendants are also liable for any false and misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Stratasys who knew that the FLS was false. In addition, the FLS were contradicted by existing, undisclosed material facts that were required to be disclosed so that the FLS would not be misleading. Finally, most of the purported "Safe Harbor" warnings were themselves misleading because they warned of "risks" that had already materialized or failed to provide meaningful disclosures of the relevant risks.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

64. Plaintiff incorporates ¶¶1-63 by reference.

65. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order

to make the statements made, in light of the circumstances under which they were made, not misleading.

66. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes, and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices, and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of Stratasys common stock during the Class Period.

67. In addition to the duties of full disclosure imposed on Defendants as a result of their affirmative false and misleading statements to the public, Defendants had a duty to promptly disseminate truthful information with respect to Stratasys' operations and performance that would be material to investors in compliance with the integrated disclosure provisions of the SEC, including with respect to the Company's revenue and earnings trends, so that the market price of the Company's stock would be based on truthful, complete, and accurate information. SEC Regulations S-X (17 C.F.R. §210.01, *et seq.*) and S-K (17 C.F.R. §229.10, *et seq.*).

68. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the Class have suffered damages in connection with their respective purchases and sales of Stratasys common stock during the Class Period, because, in reliance on the integrity of the market, they paid artificially inflated prices for Stratasys common stock and experienced

loses when the artificial inflation was released from Stratasys common stock as a result of the partial revelations and stock price decline detailed herein. Plaintiff and the Class would not have purchased Stratasys common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

69. By virtue of the foregoing, Stratasys and the Individual Defendants have each violated §10(b) of the 1934 Act, and Rule 10b-5 promulgated thereunder.

COUNT II

For Violation of §20(a) of the 1934 Act
Against All Defendants

70. Plaintiff incorporates ¶¶1-69 by reference.

71. The Individual Defendants acted as controlling persons of Stratasys within the meaning of §20(a) of the 1934 Act. By reason of their controlling positions with the Company, and their ownership of Stratasys common stock, the Individual Defendants had the power and authority to cause Stratasys to engage in the wrongful conduct complained of herein. Stratasys controlled the Individual Defendants and all of its employees. By reason of such conduct, the Individual Defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment as follows:

A. Declaring that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding such equitable, injunctive, or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: February 5, 2015

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